

WATER/FLC/MEY:jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4598

APRIL 27, 2006

R E S O L U T I O N

**(RES. W-4598), AGATE BAY WATER COMPANY (AGATE BAY).
GENERAL RATE CASE FOR AGATE BAY.**

By Draft Advice Letter dated December 15, 2004.

SUMMARY

This Resolution approves the Staff Report by the Water Division to increase rates for Agate Bay.

BACKGROUND

Agate Bay filed an informal General Rate Case request on December 15, 2004. Staff prepared the attached Staff Report.

DISCUSSION

This resolution approves the rates contained in the staff report. The net system average rate increase is 23.10%. Both the utility and staff agree that the rates are just and reasonable.

NOTICE

The customers were noticed on May 5, 2005. No protests were received.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PUC Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS

Agate Bay Water Company's rates as contained in Appendix B of the Staff Report dated March 29, 2006 are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Agate Bay Water Company is authorized to file by advice letter to establish the rates contained in Appendix B of the staff report dated March 29, 2006.
2. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on April 27, 2006; the following Commissioners voting favorably thereon:

/s/ STEVE LARSON

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
President

GEOFFREY F. BROWN

DIAN M. GRUENEICH

JOHN A. BOHN

RACHELLE B. CHONG
Commissioners

CALIFORNIA PUBLIC UTILITIES COMMISSION
WATER DIVISION
WATER BRANCH



Staff Report on the Advice Letter
General Rate Increase
for
Agate Bay Water Company

March 29, 2006

MEMORANDUM

The report presents the results of a review and analysis of the operations of the Agate Bay Water Company. Michael Yeo, Senior Utilities Engineer, is responsible for this report.

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I. Introduction

Agate Bay Water Company (ABWC) is a corporation owned by Lenore and Duncan Davis. It serves approximately one square mile of territory located in the community of Agate bay and vicinity, on the northwest shore of Lake Tahoe, Placer County. The utility's administrative and operations staff consists of: Duncan S. Davis, President and Executive Officer; Lenore Davis, Office Manager; Steven Glazer, General Manager; and Duncan C. Davis, Maintenance Manager I.

ABWC filed a draft Advice Letter with the Water Division on December 15, 2004 requesting a general rate increase (GRC). The Water Branch accepted the filing as complete on May 20, 2005. ABWC requested authority under General Order 96 and Section 454 of the Public Utilities (PU) Code to increase rates for water service by \$132,508 or 59.52% for test year 2005. PSRWS requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by \$39,470 or 136.2% for test year 2005. ABWC's estimate of gross revenues of \$222,615 at present rates will increase to \$132,508 at proposed rates for 2005. The reason for the increase is to pay for increased operating expenses and to earn an adequate rate of return on plant investment. Staff recommends allowing an increase of \$51,459 or 23.10% in revenues for test year 2005.

ABWC sent a notice to customers on May 25, 2005. The last general rate increase was implemented by Resolution W-4285 on August 23, 2001. That resolution authorized an annual increase of \$20,516 or 10.45%.

II. System Description

AREA SERVED

ABWC serves a residential subdivision area at the north end of Lake Tahoe near Carnelian Bay in Placer County. The system does not serve any business, commercial, or industrial premises; only single family homes. Many of the houses are occupied only in summer or on weekends. Therefore, the population served may vary from 500 to 2,500 people at different times.

The system currently has 580 flat-rate service connections, of which 579 pertain to single-family homes and one to a recreation private club. The 579 single family total does not include 16 additional single-family unit connections served on the same premises. Finally, there are seven private fire protection connections; these seven connections amount to 129 total annual inches of pipe service provided (see Rate Design section).

The California Department of Health Services classifies ABWC as a D2 water distribution company.

WATER SOURCES

The system has two water sources: a spring and Lake Tahoe.

The spring water from the aquifer supplies water at 225 gallons per minute (gpm). This spring is in a remote location and provides most of the water for the system. It feeds into a 50,000 gallon

bolted steel tank, and then into the distribution system of over 439 connections. In 1994, the company built a booster pumps station that consists of a 1½ hp 40 gpm pump and a 5 hp 80 gpm pump. The two pumps can operate independently at those capacities or together they have a capacity of approximately 100 gpm. The booster station lifts water from the zone fed by the spring to the zone serviced by the lake water.

The water filtration plant located at 6000 Lake Shore Boulevard is on the shore of Lake Tahoe. It normally pumps lake water at 200 gpm during peak season consumption (from around July 4 through Labor Day). The water from Lake Tahoe is taken via a 1,700-foot intake pipeline, which is in 35 feet of water, and is used to supply water to about 100 houses too high to be supplied by the spring source. The lake water is also necessary to meet summer water demands. The lake pump station is used very little in the off-season months.

In the lake, there are two 7½ hp submergible pumps, which operate independently; the system manager, however, uses them on rotation to keep them in prime and to assure equal usage. The pumps, when used singly, can operate at 200 gpm at approximately 35 psi, and pump the water through the two stage sand filter made by Hoffinger Industries Environmental Products Division. The first stage of the water treatment has three vessels, and the second stage has two vessels; each vessel is filled with Garnet sand. Each stage is monitored for turbidity with two LMI electromagnetic alum dosing pumps at a rate of 2.5 gph at 100 psi.

The lake water, after it has been filtered and treated, is then pumped by two independently-operated 25 hp turbine pumps, which are used on rotation by the system manager. Each pump delivers 200 gpm at over 140 psi. The treatment process continues with a LMI electromagnetic dosing pumps injecting a sodium hypochlorite solution at a rate of 1.6 gph at 150 psi into the filtered water. There is an extra LMI pump, required by the DHS, on the shelf ready for installation. There are five-gallon containers of 12.5% strength chlorine, which is added with water to make a solution of sodium hypochlorite in a 100-gallon container. The design chlorine dosage at the plant is .6 ppm. The treatment process continues in a transmission pipeline over 3600 feet for DT value (detention time) into the 300,000 gallon bolted steel tank. Finally, water can enter a distribution main for delivery to customers. There are approximately 140 homes on this upper zone.

The capital investment to comply with the surface water treatment requirements were requested in the AL 22 on May 10, 1999, effective 7/8/99 resolution W4158 and W4163. Peak consumption is normally up to 300 gpm.

STORAGE

The system has two storage tanks; one for the spring source and one for the lake source. The tank at the spring is of bolted steel; and it has a capacity of 50,000 gallons. It receives water from the spring and overflows when the supply exceeds the demand. The tank in the lake source portion of the system is also of bolted steel. It has a capacity of 300,000 gallons and floats on the system pressure. The base of the lake tank is 87 feet higher than the base of the spring tank and provides better pressure for service connections at higher elevations.

A mercoid pressure switch at the base of the tank controls operation of the lake pumps via a telephone wire. A float switch in the tank at mid-depth sends a low-level alarm signal.

Previously that alarm was delivered to Security Lock and Alarm Company in Tahoe City or to the answering service; ABWC has since abandoned the Security Lock & Alarm company service. The alarm system is to alert the operator that the telephone signal to the lake pumps has failed before the tank drains and customers are out of water. Nowadays, the system operators often patrol to inspect visually the tank conditions. By patrolling, the system operators accomplish two tasks: one is for security and the other is to assure that tank level controls are operating automatically.

DISTRIBUTION SYSTEM

Most of the system consists of 6-inch asphalt dipped and wrapped, unlined steel pipe. As the pipe ages, leaks occur: the leak projects scheduled to be done are listed in the section, Improvements Needed. About one third of the pipelines are less than four inches in diameter. There are about 15 dead ends. Water and sewer mains are not in the same trench, but in most places are on the same side of the road. Separation is usually less than 10 feet. ABWC does not foresee any expansion, so the only new mains installed in the future will be replacing old ones. There are no low headlines within the system. Lead pipe, joints and/or solder are not used in the distribution system.

The lake and spring sources supply separate distribution systems, which are interconnected at one point through a 3" Cla-valve pressure-reducing valve. This valve is necessary because of the pressure difference between the two systems. Also, during the summer, because the spring cannot supply the peak system requirements, this Cla valve intertie helps to supplement the spring water with the lake water.

The two pressure zones are also interconnected at three other locations: a 4" butterfly valve and two 2", manually-operated gate valves interties. These three interties, which are normally closed, could be operated manually by the system operator when the automatic Cla-valve is not sufficient to supply system requirements.

Another intertie to the Carnelian Woods system, operated by North Tahoe Public Utility District (NTPUD), is kept closed by a single gate valve. This 6-inch interconnection to NTPUD, which has ground well source, was utilized about ten years ago when NTPUD purchased water from ABWC when their well was being rehabilitated. In the summer season, available water from the NTPUD Carnelian-Woods intertie does not have sufficient capacity to meet ABWC's need. There has been no water sales transaction between the two water companies recently.

III. Improvements Needed

ABWC states in its application the following improvements/projects are needed to update the system and to conform to the requirements of California Department of Health Services (DHS). In a data request response, the priority of projects to be done is as follows:

1. Installation of tees and isolation valves on Victoria and Agate Road and the double Pipeline replacement project on Victoria and Uplands Road. The pipeline has had a history of leaks, including five leaks last winter. In the fall of 2003, a major leak occurred on the pipeline; it was identified in a report from Steve Twomey, an ABWC-hired engineer, to Lahontan

Regional Water Quality Control Board. Not only would the project to fix the leaks prevent the wastage of water, loss of water pressure, and the undermining of streets, it is also necessary to avoid the possibility of fines with that State Agency. This project was recently completed June 9, 2005. In the application, that cost is estimated to be \$84,500.

2. Installation of a slip line and rehabilitation of the filter lake intake line. Every spring or early summer ABWC hired two divers to install a number of full circle repair clamps. The pump efficiency is impacted by the leaks in that source of supply. When the pump efficiency is diminished, the electricity bills are high. ABWC would like to perform this project in Spring 2006. ABWC estimated this project to be \$75,000.
3. Rehabilitation of both the 300,000 and the 50,000-gallon water tank. The 300,000 gallon tank was installed in 1993 and the 50,000-gallon tank in 1994. According to the Preventive Tank Maintenance class sponsored by the California Rural Water Association, bolted steel tanks need to be inspected and touched up every ten years. Both are over due. ABWC anticipates this work to be done 2006 or in 2007. The rehabilitation cost for the 300,000-gallon tank is \$125,000, and for the 50,000-gallon tank is \$50,000.

IV. Summary of Earnings

The Branch performed an independent analysis of ABWC's summary of earnings for test year 2005. Appendix A shows ABWC's and the Branch's summary of earnings at present, proposed, and recommended rates for ABWC for test year 2005.

OPERATING REVENUE:

There will be an estimated 603 connections in 2005, of which seven are for fire protection. At present rates, revenues would be approximately \$222,728.

ABWC requested an increase of \$132,508 or 59.5% from \$222,615 to \$355,123.

The Audit and Compliance Branch (A&C) Branch of the Water Division has determined an appropriate rate of return for a Class C water company to be between 11.90% and 12.90%. Staff recommends allowing the midpoint of this range, or 12.4%. At a rate of return of 12.4%, the operating revenue would be \$274,187.

In Decision (D.) 92-03-093, effective April 30, 1992, the Commission adopted the operating ratio method of ratemaking as an alternative to the rate of return method on rate base for Class C and D utilities. Ordering Paragraph 8 of D.92-03-092 states:

Division is directed to calculate rates using both return-on-rate base and operating ratio methods of ratemaking for Class C and Class D water companies requesting new rates and to recommend to the Commission the rate method that produces the higher results.

Staff calculated the revenue requirement using the Rate of Margin (also known as Operating Ratio) Method in accordance with Commission Resolution W-4524, effective March 17, 2005.

In that Resolution, the rate of margin for Class C water utilities in 2005 is 23.20%. A subsequent March 24, 2005 memo from the Water Division to the Commission updated that ratio to 24%. Using the Rate of Margin Method, the revenue requirement was calculated to be \$250,594 (Appendix F); this amount is \$23,593 less than the amount of \$274,187 calculated using the rate-of-return method. D.92-03-092 requires that the method which produces the higher revenue requirement be used. Staff, therefore, recommends allowing \$274,187 for operating revenue.

The recommended new revenue requirement of \$265,737 using the rate-of-return method represents an increase of \$56,313 or 25.85%.

OPERATING EXPENSES AND TAXES:

Purchased Water

There is no expense for purchased water because ABWC has sufficient water to supply its customers from its two water sources. To date, ABWC has never needed to purchase water (see *System Description*).

Purchased Power

ABWC requested for an increase in power expense from the previously-adopted amount of \$3,656 to a proposed amount of \$5,734. The recorded numbers for 2004 are as follows:

- \$4,594 for the power used to pump the lake water to the 300,000 gallon lake tank. The power is used by the lake filter pump, which normally operates at 50psi/200 gpm, and by the pump house turbine pressure pumps, which normally operates at 200psi/200gpm. Agate Bay does not shut off the usage of the filter pump during the low season months (mid October to beginning May). Therefore, staff recommends that those pumps be normally turned off during the low season, and be turned on occasionally to verify the operationability of the equipment.
- \$1,079 for the booster pump (40gpm@67psi, 80gpm@67psi) to pump the aquifer water to the lake tank.

Staff initially recommended increasing the power expense by \$348 from \$3,656 to \$4,004; this increase represented the 9.5% CPI increase from 2001 to 2004 (see Appendix G). Staff believed that this modest increase was doable because there was a way of restricting power usage. This reduction of power consumption could be achieved by restricting the use of the lake pumps to during high season. By allowing \$1,079 for the spring water pump (see above), there would be a balance of \$2,925 (\$4,004-\$1,079) for the lake equipment. This \$2,925 amount represented 63.7% of the amount requested by ABWC for the lake equipment; an amount that should meet the usage expense during the three-month, high season demand from around July 4 through Labor Day, or 25% of the year. In addition, when the slip line installation and lake intake line rehabilitation project is completed (see the section, Improvements Needed) to repair the water source leaks, the pump efficiency will increase, and this increased efficiency will reduce the electric bills.

ABWC countered that there might be regulatory and manufacturer's issues if the lake pumps were intermittently shut off during the off season. For this GRC only, staff acquiesced to the use of the 2005 recorded power consumption expense to be computed for the proposed rate increase. The recorded 2005 expense is \$5,433, which is less than the \$5,734 requested in the application; therefore, staff recommends \$5,433 for this expense item.

Staff will revisit this issue on power conservation in the next GRC filing. ABWC is to submit, in its next GRC application, copies of correspondences with the California Department of Health Services, the fire department and the equipment manufacturer on the viability of shutting off the lake pumps during the off season. In addition, with the expected completion of the slip line installation and lake intake line rehabilitation project by the next GRC, staff anticipates to see a reduction in power consumption. ABWC is expected to maintain records of the kWh usage so that staff may review them.

Other Volume Related Expenses

ABWC indicated that the expenses in this item pertain to the cost of chemicals for water treatment and for the telemetry line for pump operation. In the 2001 GRC, the Commission approved an amount of \$1,400, and ABWC is requesting for \$4,631 for this GRC; this represents an increase of 231%.

The increase in expenses is due mainly to the conveyance and treatment of backwash water. The backwash water is from the Lake pump filter which was not installed during the 2001 GRC. The backwash water is treated by Tahoe Truckee Sanitation Agency, which receives the water via NTPUD. ABWC pays NTPUD \$165 bimonthly to transport the backwash water from out of the Tahoe basin to Tahoe Truckee Sanitation Agency, and \$1296 biannually to the latter. These payments to those two entities represent a significant increase in expenses from the 2001 GRC.

ABWC also spent \$247 in 2005 for the purchase of sodium hypochlorite from Sierra Chemical

The recorded expense for 2005 was \$4,247, which is \$384 less than the \$4,631 that ABWC originally requested. Staff therefore recommends an amount of \$4,247 for this item, an increase of \$2,847 or 203%.

Employee Labor

ABWC requested \$22,000 for employee labor. In the last GRC, that amount was only \$2,000; this GRC, therefore, asks for a 1,000% increase for this expense item. At the time when this GRC was filed, the employees listed are Duncan C. Davis, son of owner, and Al Schwartz, Field Operations Manager. Duncan C. Davis was not in the 2001 GRC because he was not working for the company; also, Al Schwarz was considered as a contract labor at that time, and was therefore not included in the expense for this category. Since then, the California Employment Development Department (EDD) determined that Al Schwarz should be considered as an employee labor. Also a couple of years ago, an audit by the EDD ordered the ABWC to change a couple of the utility's contract workers to employees. Al Schwartz and Dave Gleske were the

two that needed to become employees. ABWC's requested payroll breakdown is as follows: \$18,000 to Duncan C. Davis and \$4000 to Al Schwarz, with a total of \$22,000; Dave Gleske's name, in this filing, was not among the list of staff in the payroll.

Duncan C. Davis's job title is Maintenance Manager I. His job duties are extremely varied – from 24/7 availability for customer service calls, water leaks, booster pump/filtration plant service to operating/repairing various equipment and to various office-related tasks. He is expected to take over the family's business eventually. Pending his successful passing of the examination with DHS, Mr. Davis has been granted with an interim Grade D2 Water Distribution Operator Certificate. Al Schwarz, on the other hand, passed away early 2005, and his name should therefore no longer in the payroll. With Duncan C. Davis's employment with the company in this GRC and with the varying duties to which he is assigned, it appears that he should be able to carry on the work vacated by the death of Al Schwartz; and therefore, his position cannot be considered as an increase in staffing level. Because of the afore-mentioned reasons, staff finds justification in having Duncan C. Davis in the payroll. However, staff cannot find reasons to support the employment of two part-time employees, Sean or Laura Grey.

In a recent telephone conversation, but not stated in the data request response, ABWC indicated that there are three casual workers, John Haskill, David Rocha, and Pedro M. Valazquez, under their employ. ABWC, in a marked-up comment, is now requesting \$18,139 for this item; since \$18,000 is for Duncan C. Davis, the remaining \$139 is assumed to be for the casual workers. With the departure of the two previously-identified employees (Al Schwarz and Dave Gleske), staff, therefore, recommends \$18,139 for this item. ABWC is expected to maintain records of the work done by the casual workers so that staff may review them.

See Contract Work, below, on further discussion on labor expense.

Materials

ABWC requested \$7,359 for materials; in the 2001 GRC, the Commission approved an amount of \$3,243. The requested increase of \$4,116 represents 127% over the last GRC. This is an item for waterworks repair materials and miscellaneous maintenance supplies. ABWC uses a three-year average for years, 2002 to 2004, to arrive at \$7,359. Initially, in a data request from staff, ABWC did not provide any supporting workpapers to show the detailed expenses and accounts for each of the three years. In a later submission from ABWC, the recorded expenses for this item in 2005 show it was \$3,180; this amount is far less than the \$7,359 that ABWC initially requested, and also less than the 2001 Commission-approved amount of \$3,243. ABWC argued that it needed more allowance because of the on-going leaks in the system and these repairs would require more materials. It cited recent new leaks on Chad Street and Agate Road.

Staff believes that utility operations have not changed significantly during that time period since the last GRC to warrant an increase of that magnitude requested by ABWC; that belief is substantiated by the recorded 2005 expenses of \$3,180 versus the \$7,359 amount that ABWC requested. Staff therefore recommends an increase of \$309 from \$3,243 to \$3,552; this is based on the compounded 2001-2004 CPI increase of 9.51%. The \$3,552 amount is also \$372 more than the recorded 2005 recorded expense of \$3,180, and should supplement any materials required for any leak work.

Staff will review again the expenses for this item for reasonableness in the next GRC.

Contract Work

In the 2001 GRC, the Commission approved an amount of \$36,345 for contract work. For this GRC, ABWC requested \$42,400 for this expense item; this represents an increase of \$6,055, or 16.67%.

When the requested amount for Contract Work is added to that for Employee Labor, the total increase is even more staggering.

Table IV-1
Comparison of Total Field Labor Expense

	2001 GRC (a)	ABWC's Proposal (b)	ABWC's Increase (c)=(a-b)/a	Staff's Recommendation (d)	Staff's Increase (e)=(d-a)/a
Employee Labor	\$2,000	\$22,000	1,000%	\$18,139	807%
Contract Work	\$36,345	\$42,400	16.67%	\$27,545	-24.2%
Total	\$38,345	\$66,400	73.2%	\$45,684	19.14%

Originally, staff had considered that the total labor expense (\$38,345) should remain the same as the 2001 GRC, with 9.51% CPI increases from 2001 to 2004 (\$3,646) added to it. Staff believes that some work previously performed by contract labor should now be borne by Duncan C. Davis, the son of the owner; to that extent, the expense amount of contract work should be correspondingly reduced by the addition of Duncan C. Davis to the payroll. Finally, this expense should see a reduction when the slip line installation and lake intake line rehabilitation project is completed (see Improvements Needed) since no divers would be needed every spring to install leak clamps.

In a later submission from ABWC, the recorded expenses for this item in 2005 show it was \$26,945, not including those expenses incurred on contract work to perform tests to comply with California Department of Health Services and South Tahoe PUD requirements. Since some tests are required triennially; the test-related expenses are annualized. The total estimated annual expenses based on the recorded 2005 numbers are \$27,545, which include the test expenses. It is ABWC's prerogative to claim those test expenses in the GRC process rather than through advice letter filings to recover costs specific to those test-related expenses.

Therefore for Contract Work, staff recommends an amount of \$27,545, which is less than the \$36,345 requested by ABWC. The total labor expense, on the other hand, is increased by \$7,339 (19.14%) from \$38,345 to \$45,684; this increase is more than the 4-year CPI compounded increase of 9.51%.

Transportation

There is only one car assigned for business use even though the owners have a second vehicle. In 2002, the owners purchased a 2002 Escalade with 20,000 miles; prior to that, for over 14 years, they owned a 1988 Explorer which had 58,000 miles only. The business vehicle's usage is therefore about 4,143 miles per year.

ABWC is requesting for an increase from \$3,675 to \$4,632 for this expense item, an increase of 26.0%. This is an item for gas and car maintenance. ABWC uses a three-year average for years 2002 to 2004 to arrive at \$3,675. However, there are no supporting workpapers to show the detailed expenses and accounts for each of the three years.

If staff uses the State reimbursement rate of \$0.34 per mile to calculate the transportation expense, the allowance for this expense amounts to \$1,409. Because the Commission previously authorized \$3,675 in the last GRC, staff recommends an increase of \$350 to \$4,025; this is based on the 2001-2004 CPI increase of 9.5%.

With a recommended expense of \$4,025, this amounts to allowing a reimbursement rate of 97¢ per mile – about 186% higher than the standard State reimbursement rate of 34¢ per mile or the IRS allowance of 40.5¢ per mile. The State reimbursement rate also has the depreciating value of the vehicle factored in the rate while ABWC is allowed to deduct depreciation of the vehicle under a separate expense line item. Therefore, staff is very generous in even allowing an increase for this expense item.

Other Plant Maintenance Expenses

ABWC is requesting for an increase from \$333 as approved in the 2001 GRC to \$999, an increase of 200%. In a data request response, ABWC stated that the large-item expenses are for membership to the Underground Service Alert in accordance with Placer County Public Works requirements, tree removal on roads and around facilities, security of plant facilities, snow removal from water tanks and pump stations. In the workpapers, ABWC uses a three-year average for years 2002 to 2004 to arrive at \$999. However, there are no supporting workpapers in the filing documents to show the detailed expenses and accounts for each of the three years, nor was there any detailed cost information provided in the data request response to support the \$999 expense for the test year. Also, because utility operations have not changed significantly during that same time period to warrant an increase of that magnitude. Staff, therefore, initially considered a 9.51% increase based on cost of living (CPI) from 2001 to 2004.

In response to staff's initial consideration of the 9.51% increase, ABWC, subsequently, submitted the most current year's (2005) recorded expenses, which total \$1,534. This is even more than the \$999 that ABWC initially requested. The major cost items include payments to Underground Service Alert (USA), Placer County Environmental Health for its annual fee and Placer County Environmental Health for Hazardous Materials removal. Because of the late submission, staff chose not to look into the specifics of those cost items. It is unclear as to why there are such big disparities between the 2001 GRC approved amount of \$333 and this current estimate of \$1,534, and between this recorded expense of \$1,534 and ABWC's original filing estimate of \$999: some of the expenses, such as those for USA and the Placer County

Environmental Health, do not appear to be new items. ABWC should have promptly provided the detailed cost information to staff during the data request.

Staff recommends allowing \$1,534 for Other Plant Maintenance Expenses. Those expenses will be evaluated again by staff for reasonableness in the next GRC, and ABWC is expected to maintain records so that staff may review them.

In addition to the above \$1,534, there are two additional anticipated cost items associated under this account. In a data request, staff attempted to obtain some resolution on them, which relate to personnel and plant safety:

- At the site where spring water is collected, there is a 50,000 gallon steel tank. That tank is missing an approximate lower 8-foot ladder extension. Presently, employees are using a wooden ladder to access to the top of the tank. However, not only does that wooden ladder, when used, not attach to the upper steel ladder, but does not align with the upper steel ladder. There exists a condition of employees misstepping and falling off.

In the data request, staff wanted to know how much it would cost to install a ladder that can be sturdily attached to the upper ladder, and yet, for security reason, could be removed or retracted. ABWC's response was that the work could be done at the time when the tank is rehabilitated (see discussion on this in Rate Base). The response also indicated that access to the roof top is done on an occasional basis only; staff infers from this response that there was no urgency to fix the ladder. Staff is concerned that any personnel injury will result in additional cost to the company due to hiring of replacement workers, workman's compensation claim, insurance premium increase; all of which will have the ratepayers bearing the cost.

- At the site of the 300,000 gallon lake tank, there are a number of tall trees which pose a danger of falling onto the site. These trees are on a steep hill above the tank, and they pose both a potential danger of safety to the employees and damage to the tank; all of which, if an incident does happen, will incur cost to ABWC. There is evidence that some trees have already fallen around the site.

In the data request, staff wanted Agate Bay to correspond with the California Tahoe Conservancy (Conservancy) to request that the Conservancy perform a risk assessment of the surroundings. ABWC responded that the expense requested under this account should cover the cost of tree removal; there was no mention of contacting the Conservancy.

ABWC's response suggests the lack of recognition of some important germane issues. Firstly, a risk assessment by the Conservancy would identify all hazards, not just those that are easily evident. Secondly, that agency should have the expertise and responsibility to make any technical judgment. Thirdly, the trees are in the Conservancy's jurisdiction, and ABWC has no proprietary rights. Lastly, staff believes that the Conservancy should bear the major cost of any tree removal.

Staff recommends approval of any expense associated with the above two items. Because the costs associated with the above two items are not known and also uncertain (especially if the Conservancy is responsible for the risk removal), staff recommends that the expenses related to

them not be included in the projected expense for this item. ABWC can seek recovery of the expenses related to the above two items either in the next GRC or as an offset filing when those costs have been incurred.

Office Salaries

The expense for this item is proposed to be increased by 47.1% from \$15,600 in the 2001 GRC to \$22,951. Because utility operations have not changed significantly during that same time period to warrant an increase of that magnitude, and the cost of living (CPI) has only gone up about 9.51% since 2001, staff believes that ABWC's estimate for office salary is unreasonably high. Staff therefore recommends an amount of \$17,084 for this item, an increase of \$1,484.

Management Salaries

The expense for this item is proposed to be increased by 20.2% from \$20,800 in the 2001 GRC to \$25,000. Because utility operations have not changed significantly during that same time period to warrant an increase of that magnitude, and the cost of living (CPI) has only gone up about 9.5% since 2001, staff believes that ABWC's estimate for management salary is unreasonably high. Staff therefore recommends an amount of \$22,779 for this item, based on the CPI increase for the last four years; this represents an increase of \$1,979.

Employee Pensions and Benefits

This expense item has increased substantially from \$4,000 in the 2001 GRC to the requested amount of \$20,192; this is an increase of 404.8%. There are three employees covered under this item: Duncan S. Davis, Lenore Davis and their son, Duncan C. Davis. The \$20,192 expense is broken down into \$9,000 for pension (3 @ \$3,000) and \$11,192 for health insurance. This health insurance portion has increased by 1,806.6%, from \$587 to \$11,192, since the last GRC. Staff will accept the amount for this GRC, but will want evidence of competing quotes from various providers in the next GRC.

Office Services and Rentals

ABWC is asking for \$4,800, the same amount as in the previous 2001 GRC. In the last GRC, the estimate was based on the cost for a room in the Davis's home; that room is dedicated for the utility's use. That estimate was based on actual square footage dedicated to the utility, and a reasonable per-square-foot charge was applied. When CPUC staff Ray Valaitis previously visited the Carmichael office, there was a garage, half of which was converted to a room. And that room was used as the office for the Agate Bay operation. The expense claim for the use of the office was \$3,600, and rose to \$4,000 in 2001. There has never been a claim for the use of any other office space.

Staff recommends \$4,800.

Office Supplies and Expenses

In this GRC, ABWC requested \$8,528 for office supplies and expenses; in the 2001 GRC, the Commission approved an amount of \$2,973. The requested increase of \$5,555 represents 187% over the last GRC. The expenses for this item are for consumer confidence reports, internet expense, telephone bills, and other office expenses. ABWC uses a three-year average for years, 2002 to 2004, to arrive at \$8,528. During the data request process, ABWC did not provide any supporting workpapers to show the detailed expenses and accounts for each of the three years. Staff, therefore, initially considered a 9.51% increase based on cost of living (CPI) from 2001 to 2004. This amounted to an increase of \$283 from \$2,973 to \$3,256.

In response to staff's initial consideration of the 9.51% increase, ABWC, subsequently, submitted the most current year's (2005) recorded expenses, which total \$7,924. This is less than the \$8,528 that ABWC initially requested in its filing. Upon review of the latest submission, staff and ABWC stipulated to an amount of \$6,112.

The expense amount was stipulated because it was difficult to establish what portion of the various expenses pertains to personal and business use. Staff advised ABWC to set up allocation factors for the expenses of all equipment and labor where there are instances of shared personal and business use. As a method of arriving at some allocation factors, staff mentioned to ABWC to track records of those mixed expenses for a period of a year. Staff recommends that ABWC submit the allocation factors for staff review prior to the next GRC submission to minimize the discovery time during the GRC processing.

Professional Services

ABWC is requesting for an increase from \$3,979 to \$4,410, an increase of 10.8%. This is an item for the payment of services rendered by certified public accountant, engineer and computer consultant. In the workpapers, ABWC uses a three-year average for years 2002 to 2004 to arrive at \$4,333; this is lower than the \$4,410 amount requested and represents an 8.9% increase. Staff therefore recommends an increase by \$354 to \$4,333 for this expense item.

Insurance Expense

In this GRC, ABWC requested \$16,392 for insurance expenses; in the 2001 GRC, the Commission approved an amount of \$5,308. The requested difference of \$11,084 denotes a 209% increase over the last GRC. A major portion of this increase is due to the fact that in 2001 GRC, there was no workers compensation expense. In a subsequent conversation between ABWC and staff, ABWC reduced the expense for this item to \$11,008. This new requested increase of \$5,700 represents a 107% increase over the 2001 GRC.

There are two reasons for this reduction. The automobile insurance amount originally provided was incorrectly given. In the case of workers compensation, Duncan C. Davis, the son of Duncan S. Davis, needs not be covered for workers compensation because he is considered an owner. At this time, the casual workers to be covered under workers compensation are John Haskill, David Rocha, and Pedro M. Valazquez.

The breakdown of this \$11,008 expense for the 2004/5 year is as follows:

\$8,406	Public liability and property damage;
\$2,036	Auto insurance for two automobiles;
<u>\$566</u>	Workers compensation and employees' health insurance.
\$11,008	

Staff recommends acceptance of this expense amount, but will ask ABWC for competitive rates from other insurance companies in the next GRC.

Regulatory Expenses

ABWC is requesting for an increase from \$500 to \$3,000, an increase of 500%. This is an item on regulatory-related expense for fees to consultants, attorneys, etc., in rate cases, or other dealings with the Commission. In its workpapers, ABWC justifies this increase by averaging \$6,000 per rate case over three years, i.e., \$2,000 per year, and \$1,000 per year to prepare the Annual Report and to keep informed of Commission Rules. However, during the data request process, ABWC failed to give details or supporting workpapers on specific activities, and how those activities add up to those dollar amounts. Staff, therefore, initially considered a 9.51% increase based on cost of living (CPI) from 2001 to 2004. This amounted to an increase of \$48 from \$500 to \$548.

In response to staff's initial consideration of the 9.51% increase, ABWC, subsequently, submitted the most current year's (2005) recorded expenses, which total \$1,023. This is less than the \$3,000 that ABWC initially requested in its filing. ABWC added that the \$1,023 did not include the labor cost in preparing the GRC. Upon review of the latest submission and annualization of the GRC labor cost, staff and ABWC stipulated to an amount of \$1,400.

General Expenses

In the 2001 GRC, the Commission authorized an amount of \$2,475 for this item. ABWC, in this application, is requesting for \$2,151, a decrease of \$324. ABWC justifies this expense because of costs related to association memberships and required continuing education expenses for Distribution and Treatment operator. Staff recommends acceptance of ABWC's request for \$2,151.

Taxes Other Than Income – Payroll Tax

ABWC requested \$18,096 for payroll tax. Staff computed the payroll tax to be \$5,346. The difference between staff's estimate and ABWC's request is due in part to a reduced recommended total payroll expense and the reduction of the total number of employees.

The total payroll liable for taxes is as follows:

Management Salary	= \$22,779
Office Salary	= \$17,084
Employee Labor	= <u>\$18,139</u>
Total Payroll	= \$58,002

The various components of the payroll tax are FICA, FUTA and SUI/ETT. The FUTA and SUI/ETT taxes are calculated on the first \$7,000 of each employee's salary. In the case of ABWC, there are three full-time employees (Duncan S. Davis, Lenore Davis, and Duncan C. Davis), so the taxes for those three will be calculated based on \$21,000. There are also three casual workers (see the section, Employee Labor) whose total salaries amount to \$139; their taxes will be based on \$139. The various payroll tax components are computed as shown below:

FICA	\$58,002 @ 7.65%	=	\$4,437
FUTA	\$21,139 @ 0.8%	=	169
SUI/ETT	\$21,139 @ 3.50%	=	<u>740</u>
Total			\$5,346

Staff recommends allowing \$5,346 for payroll tax.

Taxes Other Than Income - Property Tax

ABWC requested \$7,115 for property tax, with a property tax rate of 1.08964%. The estimate included taxes liable for newly-added utility plant with a value of \$84,500 in 2005, and of \$8,474 added in 2004. The 2004 property tax bill was \$6,543 and the new tax was estimated with a 2% increase.

Staff arrives at an estimate of \$7,106; the difference is because staff uses the actual recorded value of the 2005 plant addition of \$82,840 instead of the estimated \$84,500.

Depreciation

ABWC estimated depreciation of \$23,224, using a depreciation rate of 2.7%. This is based on a beginning-year, utility plant of \$822,039 and the 2005 estimated capital addition of \$84,500. Staff, however, uses a reduced beginning-year, total utility value of \$813,201 (see Rate Base section) and the actual 2005 capital addition cost of \$82,840. Because of those two differences, staff recommends \$22,960 for depreciation expense, \$264 less than ABWC's estimate.

Income Taxes

ABWC calculated income taxes to be \$30,633 or 37.9% of \$80,878 net income. Staff estimated income taxes of \$15,306 or 22.14% of \$69,133 net income. Staff broke this down into state income taxes (8.84% or \$800 minimum) of \$5,807, and federal income taxes (15%) of \$9,499. Staff recommends allowing \$15,306 for income tax expenses. The differences between ABWC and staff's calculation of income taxes are due, in part, to difference between the two parties' estimates of operating revenues and expenses.

Uncollectibles

ABWC did not request uncollectibles. Branch agrees that there is no need for uncollectibles to be a part of expenses for this company.

Rate Base

There are several items of differences between Staff and ABWC's estimate of rate base, as shown in Table IV-2.

Table IV-2
Rate Base Difference Between ABWC and Staff's Estimate

	Description	ABWC	CPUC Staff
1	2005 Beginning Balance	\$822,039	\$813,201
2	Tee & Isolation Valves – completed 2005	\$9,500	\$5,087
3	Double Pipeline Project – completed 2005	\$75,000	\$77,753
4	Installation of a slip line and rehabilitation of the filter lake intake line – proposed for 2006	\$75,000	future ratebase offset
5	Painting of 50,000-gallon water tank – for 2006/07	\$50,000	deferred
6	Painting of 300,000-gallon water tank – for 2006/07	\$125,000	deferred
7	Subtotal = Σ rows 1-6	\$1,156,539.00	\$896,041.00
8	Average Balance = $(\text{row1} + \text{row7})/2$	\$989,289*	\$854,621
9	Materials	\$5,458	\$4,915
10	Average Accumulated Depreciation	\$223,264	\$302,015
11	Rate Base = $(\text{row8} + \text{row9}) - \text{row 10}$	\$771,483*	\$557,521

* In ABWC's workpapers, it appears that the average balance was incorrectly written as \$864,289, instead of \$989,289 as shown above. This leads to a subsequent miscalculation of the rate base of \$646,483, instead of \$771,483. The mistake amounts to a \$125,000 discrepant amount in both the average balance and the rate base.

The reasons for the differences are as follows:

- For the 2005 beginning-year balance, ABWC stated a value of \$822,039. Staff believes this is incorrect, and arrives with a value of \$813,201, which is based on the following computation:

From 2001 GRC, plant value	\$729,760
2001 additions	\$16,440
2002 additions	\$62,048
2003 additions	<u>\$4,953</u>
Total	\$813,201
- For the completed Tee and Isolation Valves project, staff uses the recorded number of \$5,087 instead of the estimated value of \$9,500.
- For the completed Double Pipeline Project, staff uses the recorded number of \$77,753 instead of the estimated value of \$75,000.
- Staff recommends the Slip Line and Filter Lake Intake Line Rehabilitation Project estimated at \$75,000. Since this project is a future work project, staff recommends this for future rate base offset. As stated previously in the section, Improvements Needed, this project will improve pump efficiency and reduce amount of the electricity bills.
- Staff recommends deferring the two water tank painting projects till the next GRC. During the field inspection, staff observed that the two tanks had scattered, pin-head to ¼-inch size surface rust spots on the outside surfaces. Inside the tanks, because of the high water levels, the surface rust spots occurred mainly on the top few feet where there is both air and

humidity. There was no evidence of subsurface rusting.

While ABWC argues that the tanks have surpassed the recommended 10-year period for repainting, staff contends that the tank repainting projects are not of dire necessity. By deferring these projects to a later time, staff attempts too to soften the rate increase. If upon another visual inspection in 2006, ABWC observes that the situation has deteriorated, then ABWC should contact the Water Division to obtain its approval to proceed with the projects.

- ABWC, in its calculation of accumulated depreciation, did not consider four years of depreciation of its plant value, \$727,760, last authorized in the 2001 GRC. At 2.72% depreciation, this amounts to \$79,398 for the four-year period, and further reduces the rate base.

Working cash was not applied because ABWC provides a flat rate service to all its customers.

V. Rate Design

As discussed above, staff calculated the revenue requirement using the rate-of-return method. The recommended revenue-requirement increase is 23.10%. However not all the rates are increased by the same percentage.

- For the limited annual flat rate service (one customer) and the private fire protection service (7 customers), their rates are increased by 23.10%, the system average.

The private fire protection service rate is based on each inch of diameter of service connection. There are three customers with 1¼" service connection, two with 1½", and four with 2". Therefore, to determine the revenue requirements from this rate class in the rate design, the total inches of service per year need to be calculated. The computation for the total inches is as follows:

for 1¼":	1¼" x 3 customers x 12 months	= 45"
for 1½":	1½" x 2 customers x 12 months	= 36"
for 2":	2" x 2 customers x 12 months	= 48"

Total inches of diameter of service connection per year = 129"

In ABWC's application, the total inches of diameter of service connection were stated as 153. In a subsequent follow-up telephone conversation and e-mail communication between staff and ABWC, the 153" number was agreed to be corrected to 129", as shown above.

- For the remaining 579 flat-rate customers and its 16 additional unit customers, the recommended rate increases are based on their pipe-size equivalencies. For example, the recommended rate for a 1" customer is 67% higher than a ¾" customer, while the rate for a 1½" customer is twice that for a 1" customer. The rates previously approved in the 2001 GRC did not have the incremental differences based on pipe-size equivalencies. In order to reduce the impact of introducing pipe-size equivalency rate differences, the full implementation is introduced on a gradual basis; normally over two or more GRC cycles; that is why the rate structure in the last GRC is different from this GRC. Moreover, pipe size-equivalency rates will likely reduce the water consumption normally associated with large-meter users.

With this GRC, if staff were to recommend full implementation of rates based on pipe-size equivalencies, the largest connection-size (2") customer would have to pay a new rate about five times its current rate. The Water Division, however, has a rate design policy that restricts any one customer from experiencing a rate increase that is more than twice the

system average increase. Therefore, the relative rate increase will be capped by a factor of two for a 2" customer, with a sliding scale based on pipe-size equivalencies for the remaining customers whose connection sizes are in between 3/4" and 2". The following table shows the proportionate rate increases for customers with various connection sizes.

Table V-1
Relative Rate Increases for Various Connection Sizes

Conne- ction Size (a)	Equiva- lency based on 5/8" (b)	Equiva- lency based on 3/4" (c) = (b)/1.5	Relative Rate Increase (Staff Rate Design) (d) =1+[(c)-1.000]/ (5.333-1.000)	Staff Recom- mended Rate Increase (e)	Recom'd Relative Rate Increase (f)= (e)/ 22.85%	Rate Increase Relative to System Average Increase* (g) = (e)/23.10%
5/8"	1.0	0.667	n/a**	n/a	n/a	n/a
3/4"	1.5	1.000	1.000	22.85%	1.000	0.989
1"	2.5	1.667	1.154	26.36%	1.154	1.141
1 1/4"	4.0	2.667	1.385	31.63%	1.385	1.369
1 1/2"	5.0	3.333	1.538	35.13%	1.538	1.521
2"	8.0	5.333	2.000	45.70%	2.000	1.978

* Staff recommended overall system rate increase is 23.10%.

** n/a not applicable because there are no 5/8" customers.

In the last GRC, ABWC requested to add a unit charge for any additional single-family unit served on the same premises. Staff proposed and the Commission approved the additional-unit rate to be at 70% of the 3/4-inch connection flat rate. For this GRC, staff proposed the same 70% rate factor. The proposed rate increase for the additional unit rate will be the same as for the 3/4 inch connection.

- The number of customers used by staff in the rate design is different from that used by ABWC in the filing. In a recent e-mail, ABWC furnished staff with the most current information. The adopted quantities are shown in Appendix D.
- For the General Metered Service rates, those rates are increased by 23.10%. Since there are no customers under this rate schedule, revenue requirements are not currently dependant on those rates. Therefore, the rate differentials between meter sizes are not based on meter-size equivalencies. If ABWC implements metering for all its customers in the future, then those rates will have to be revisited.

The recommended new rates are shown in Appendix B.

Staff's recommended Summary of Earnings and recommended new rates as presented in the Appendices do not reflect any Consumer Price Index (CPI) increase that the company is allowed to seek for 2005. This CPI rate increase is permitted under D.92-03-093, issued on March 31, 1992. For 2005, that rate is 3.4%.

During the initial period of the GRC, staff also performed an interim rate increase analysis to determine whether an interim rate increase needed to be provided to ABWC. An interim rate may be put in place to provide the utility with sufficient income to pay for operating expenses pending the processing of the GRC. In this instance, a financial analysis showed that an interim rate increase was not warranted.

A comparison of the existing, utility's proposed and the recommended rates is as follows:

	<u>Existing Rates</u>	<u>Utility's Proposed New Rates</u>	<u>Staff Recommended New Rates</u>
<u>Quantity Rate:</u>			
Per 100 Cubic Feet (Ccf)	\$1.15	\$1.85	\$1.42
<u>Service Charge per meter per year:</u>			
For 5/8 x 3/4 inch.....	\$15.05	\$24.10	\$18.53
For 3/4 inch.....	\$16.40	\$26.24	\$20.19
For 1 inch.....	\$22.16	\$35.46	\$27.28
For 1 1/2 inch.....	\$29.78	\$46.85	\$36.66
For 2 inch.....	\$39.75	\$63.60	\$48.93
<u>Annual Flat Rate Service per service connection:</u>			
For 0-3/4 inch.....	\$373.45	\$576.16	\$458.78
For 1 inch.....	\$383.39	\$710.56	\$484.43
For 1 1/4 inch.....	\$393.33	\$903.40	\$517.76
For 1 1/2 inch.....	\$403.27	\$1,703.40	\$544.95
For 2 inch.....	\$413.21	\$2,926.35	\$602.03
<u>Additional Single-Family Residential Unit:</u>	\$261.42	\$400.45	\$321.14
<u>Limited Annual Flat Rate Service</u>	\$1,057.78	\$1,733.85	\$1,302.17
<u>Private Fire Protection Service</u>	\$7.61	\$11.16	\$9.37

A comparison of customer bills for ABWC is shown in Appendix C. The new rates produce an increase of 22.85% for a customer with a 3/4 inch meter under the annual flat rate service. The new rates provide the revenue requirement of \$274,187 (Appendix E).

VI. Service Establishment Charge - Schedule No. SE

This is a new tariff to reimburse cost associated with turning off/on a meter and with changing an account.

	Outside Regular <u>Hours</u>	Regular <u>Hours</u>
Water turn off/on or Meter set	\$70.00	\$35.00
Change of account	\$70.00	\$35.00

During the Public Meeting held on June 14, 2005, no one in the audience raised any objection to this new tariff. Also, no one wrote in to protest on this proposed tariff.

Staff recommends approval of this proposed tariff (Appendix B).

VII. Water Conservation and Rationing Plan/Water Rationing Rate - Schedule No. 14.1

ABWC proposes to introduce a new tariff, Rule No. 14.1, Water Conservation and Rationing Plan (Conservation Plan). Presently, the water rationing plan is voluntary. ABWC provided, to staff, a sample water conservation letter sent to homeowners on conservation guidelines and the availability of providing assistance. Water conservation statements are reminded in each billing statement, which is twice a year.

The proposed new tariff states that the utility may elect to implement the Conservation Plan if water supplies are projected to be insufficient to meet normal customer demand, and are beyond the control of the utility. Section A of the proposed Rule No. 14.1 deals with voluntary conservation, and Section B deals with water rationing.

During the Public Meeting held on June 14, 2005, the Conservation Plan was raised by both CPUC staff and ABWC, but there was no protest on the proposed tariff. ABWC mentioned that a public hearing is required before it is necessary to implement the Conservation Plan.

The Public Meeting attendees were more concerned that, presently under the flat rate tariff, there is no incentive for big users to conserve water. Some attendees wanted mandatory installation of meters for all households to ensure that the big users pay their fair share of the amount of water used. ABWC anticipated that the cost of installing meters would be high. While all newly-constructed homes are presently required to have meter setters to allow for future installation of meters, many existing homes do not have them.

Staff recommends approval of proposed Rule No. 14.1 and its proposed Schedule 14.1 (Appendix B). However, staff believes that the use of meters and the implementation of rates based on quantity usage would be a very effective way of water conservation and would address the issue of inequitable rate treatment. Therefore, staff recommends that ABWC perform a study on the cost and practicality of installing meters in all homes, preferably before the submission of

the next GRC, and submit such a study to the Water Division. If the meter installation program can be achieved before the next GRC, then the rate design can be based on quantity usage.

VIII. Service, Field Visit, Public Meeting, Notice, and Public Response

A notice was sent to customers of the utility on May 25, 2005 informing them of the proposed rate increase and public meeting. Staff member, Michael Yeo, presided over the public meeting held on June 14, 2005. The next day, ABWC's representatives, Duncan C. Davis and Steve Glazer, gave a tour of the system including the layout of the water system, the pump site, and the storage tanks.

The 7 p.m. public meeting was held at 8318 North Lake Blvd, Kings Beach, which is on the north shore of Lake Tahoe. Besides CPUC staff Michael Yeo and ABWC representative, Steve Glazer, Duncan Davis, there were 10 other attendees who signed in the attendance sheet. Michael Yeo began the meeting and explained its purpose. At staff's request, ABWC distributed copies of the financial proposal to the audience, and proceeded to explain why the increase was necessary, the various expense items and the estimated costs associated with each expense item.

There were many queries raised by the attendees; most were related to the high, proposed rate increase. On the proposed Water Conservation and Rationing Plan, the attendees were more concerned that, presently under the flat rate tariff, there is no incentive for big users to conserve water. The discussion led to proposing that meters be installed in all households to ensure that the big users pay their fair share of the amount of water used. The cost of installing meters for all customers was anticipated to be high. Presently, all newly-constructed homes are required to have meter setters to allow for future installation of meters.

The meeting ended at 9 p.m.

A copy of the meeting memorandum is attached to this report as Appendix H.

The CPUC staff member conducted a field investigation of ABWC's system and service area on June 15, 2005. Both Messrs. Duncan C. Davis and Steve Glazer directed a tour of the service area and explained the operation of the water system. The party visited the homes of those residents who raised issues of concern in the public meeting, such as, water pressure and pipe sizes. Pressure tests were performed in those homes and selected homes in geographically-disperse area of the water system. All pressure tests showed that the water pressures exceeded the minimum of 25 p.s.i. required.

IX. Complaints to the CPUC

There were 14 written complaints (U.S. Mail and e-mail) regarding the proposed rate increase. The complaint centered on the proposed high rate increase of 59.52%. See Appendix I for a list of write-in complaints.

X. Compliance

There are no outstanding Commission compliance issues for ABWC.

The last GRC staff report indicated that there were 11 fire hydrants that had been out of service (i.e. bagged). Those and other hydrant projects were completed in years, 2001-2003.

The utility has been filing annual reports as required.

XI. Recommendations

ABWC requested a rate of return of 12.51% for test year 2005. The Commission's A&C Branch recommends a range of rate of return between 11.9% and 12.9% for class C water and sewer utilities. Division recommends the midpoint of that range or 12.4%. In decision (D.) 92-03-093 effective April 30, 1992 the Commission adopted the Operating-Ratio Method (ORM) of ratemaking as an alternate to the Return on Net-Investment (Rate Base) method for Class C and D Utilities and recommended that the Water Division use the method that produces the higher result. Accordingly, the Branch applied these two respective methodologies to ABWC. Branch found that the return on investment calculation produced a revenue requirement of \$274,187 at the rate of return of 12.4%. The ORM method using a rate of margin of 24% produced a revenue requirement of \$250,594; this is less than \$274,187. Therefore, Branch recommends the rate-of-return revenue requirement of \$274,187 to the Commission. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.

- a. The Branch's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
- b. The rates recommended by the Branch (Appendix B) are reasonable and should be adopted.
- c. The proposed Tariff Rule No. SE (Appendix B), Service Establishment Charge, is reasonable and should be adopted.
- d. The proposed Tariff Rule No. 14.1 (Appendix B), Water Conservation and Rationing Plan, is reasonable and should be adopted.
- e. The quantities (Appendix D) used to develop the Branch recommendations should be adopted.
- f. ABWC should be allowed to file for rate relief by an advice letter to recover costs associated the slip line installation and filter lake intake line rehabilitation project. Presently, the pump efficiency is impacted by leaks at the water source. The power expense will be reduced with the completion of the project, and contract work expense will be reduced because less maintenance work is required.
- g. ABWC is not permitted to file for rate relief to recover costs associated with any tests required by the California Department of Health Service and South Tahoe PUD. The expenses pertaining to those tests have been included in the Contract Work expense item.

- h. ABWC is not permitted to file for rate relief to recover costs associated with any remittance for the Placer County Environmental Health annual fee and the Placer County Environmental Health fee on hazardous material removal. The expenses pertaining to those two items have been included in the Other Plant Maintenance expense item.
- i. ABWC should be allowed to file for rate relief by an advice letter to recover costs associated with two, small safety-related projects discussed previously in the section on Other Plant Maintenance Expenses.
- j. ABWC is authorized to file for 2005 and subsequently years an advice letter to increase its rates by the Consumer Price Index (CPI) as allowed by D.92-03-093, March 31, 1992 (the Risk Phase One Decision).
- k. ABWC is to submit, in its next GRC application, copies of correspondences with the California Department of Health Services, the fire department and the equipment manufacturer on the viability of shutting off the lake pumps during the off season. In addition, ABWC is expected to maintain records of the kWh usage so that staff may review them to determine the effect the lake intake project has on the reduction of power consumption.
- l. ABWC should provide evidence of competing quotes from various health insurance providers in the next GRC. For this filing, the health insurance premium portion of the Employee Pensions and Benefits expenses is 0increased by 1,807% since the last GRC.
- m. ABWC should provide evidence of competing quotes from various insurance providers in the next GRC. For this filing, the insurance premium increased by 107% since the last GRC.
- n. ABWC should set up allocation factors for the expenses of all equipment and labor where there are instances of shared personal and business use. As a method of arriving at some allocation factors, staff suggests that ABWC track records of those mixed expenses for a period of a year. In addition, staff recommends that ABWC submit the allocation factors for staff review prior to the next GRC submission to minimize the discovery time during the GRC processing.
- o. During the public meeting and in correspondences received by the Commission, many ratepayers were dissatisfied with the current flat rate tariff because many of them are seasonal dwellers. In light of this and in order to provide also water conservation incentive, staff recommends that the Commission direct ABWC to develop a feasibility plan to install individual meters. If possible, this study should be submitted to the Commission before the next GRC so that any proposed rate design will consider that change.
- p. The rate increase proposed by the Branch is justified, and resulting rates are just and reasonable.

APPENDIX A
AGATE BAY WATER COMPANY
SUMMARY OF EARNINGS
TEST YEAR 2005

			ABWC Estimate		Staff Estimate		
			Present Rates	Requested Rates	Present Rates	ABWC's Requested Rates	Recommended Rates at 12.4% ROR
Operating Revenue					222,728	355,032	274,187
1a	Flat rates	216,132	344,875	216,506	345,451	266,538	
1b	add. Unit	4,444	6,808	4,183	6,407	5,138	
1c	Metered limited flat	1,058	1,734	1,058	1,734	1,302	
2	Metered Revenue	0	0	0	0	0	
3	Private Fire Protection	981	1,707	982	1,440	1,208	
4	Total Revenues	\$222,615	\$355,124	\$222,728	\$355,032	\$274,187	
Operating Expenses							
6	Purchased Water	0	0	0	0	0	
7	Purchased Power	5,734	5,734	5,433	5,433	5,433	
8	Other Volume Related Expenses	4,631	4,631	4,247	4,247	4,247	
9	Employee Labor	22,000	22,000	18,139	18,139	18,139	
10	Materials Expense	7,359	7,359	3,552	3,552	3,552	
11	Contract Work	42,400	42,400	27,545	27,545	27,545	
12	Transportation Expense	4,632	4,632	4,025	4,025	4,025	
13	Other Plant Maintenance Expenses	999	999	1,534	1,534	1,534	
14	Office Salaries	22,951	22,951	17,084	17,084	17,084	
15	Management Salaries	25,000	25,000	22,779	22,779	22,779	
16	Employee Pension and Benefits	20,192	20,192	20,192	20,192	20,192	
17	Uncollectibles	0	0	0	0	0	
18	Office Service and Rentals	4,800	4,800	4,800	4,800	4,800	
19	Office Supplies and Expenses	8,528	8,528	6,112	6,112	6,112	
20	Professional Services	4,410	4,410	4,333	4,333	4,333	
21	Insurance Expense	16,392	16,392	11,008	11,008	11,008	
22	Regulatory Commission Expenses	3,000	3,000	1,400	1,400	1,400	
23a	General Expenses	2,151	2,151	2,151	2,151	2,151	
24	Total Operating Expenses	\$195,179	\$195,179	\$154,334	\$154,334	\$154,334	
25	Depreciation	23,223	23,223	22,960	22,960	22,960	
26a	Property Taxes	7,115	7,115	7,106	7,106	7,106	
26b	Taxes other than income	18,096	18,096	5,348	5,348	5,348	
27a	State Income Tax	not provided	9,716	1,934	11,373	5,807	
27b	Federal Income Taxes	0	20,917	3,164	18,604	9,499	
28	Total Deductions(Σline 24 to line 27b)	\$243,613	\$274,246	\$194,846	\$219,725	\$205,054	
29	Net Income/Revenue(ln4 minus ln28)	(\$20,998)	\$80,878	\$23,027	\$135,399	\$69,133	
30a	Average Plant	864,289	864,289	854,621	854,621	854,621	
30b	Average Depreciation Reserve	223,264	223,264	302,015	302,015	302,015	
30c	Net Plant (ln30a-ln30b)	641,025	641,025	552,606	552,606	552,606	
30d	Materials	5,458	5,458	4,915	4,915	4,915	
30e	Rate Base Average Year (ln30c+ln30d)	646,483	646,483	557,521	557,521	557,521	
31	Rate of Return	-3.25%	12.51%	4.13%	24.29%	12.40%	

APPENDIX B
Agate Bay Water Company, Inc.

SCHEDULE NO. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

Agate Bay and vicinity, on the northwest shore of Lake Tahoe, Placer County.

RATES

Quantity Rate	Per Meter <u>Per Month</u>	
Per 100 cu. Ft.	\$ 1.42	(I)
Service Charge:		
For 5/8 x 3/4-inch meters	\$ 18.53	(I)
For 3/4-inch meters	\$ 20.19	
For 1-inch meters	\$ 27.28	
For 1-1/2-inch meters	\$ 36.66	
For 2-inch meters	\$ 48.93	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

1. As authorized by the California Public Utilities Commission, pursuant to (C)
pursuant to Resolution W-4013, all bills are subject to a one-time surcharge |
of \$1.26. This charge offsets the Department of Health Services fee as billed |
to Agate Bay Water Company for the fiscal year 2004-2005. (C)
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

APPENDIX B
Agate Bay Water Company, Inc.

SCHEDULE NO. 2A

ANNUAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service furnished on an annual basis.

TERRITORY

Agate Bay and vicinity, on the northwest shore of Lake Tahoe, Placer County.

RATES

Annual Flat Rate

For a single-family residential unit, including premises.
Residential use, payable in advance on or before
January 1 of each year

Served through a	3/4-inch	\$458.78	(I)
	1-inch	\$484.43	
	1 1/4 inch	\$517.76	
	1 1/2 inch	\$544.95	
	2-inch	\$602.03	(I)

For each additional single-family residential Unit on the same premises and served from the same service connection	\$321.14	(I)
---	----------	-----

SPECIAL CONDITIONS

1. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1, Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period has been paid in advance, refund of the prorated difference between such flat rate payment and the minimum metered charge for the same period shall be made on or about that same day.

(continued)

APPENDIX B
Agate Bay Water Company, Inc.

SCHEDULE NO. 2A
(continued)

ANNUAL FLAT RATE SERVICE

SPECIAL CONDITIONS (continued)

2. The annual flat rate charge applies to service during the 12-month period commencing January 1 and is due in advance payable in two equal installments. If a permanent resident of the area has been a customer of the utility for at least 12 months, he may elect, at the beginning of the calendar year, to pay prorated flat rate charges in advance at intervals of less than one year (monthly, bimonthly, or quarterly) in accordance with the utility's established billing periods. Where a resident has failed to pay the first half of the annual charge due January 1, service will be discontinued and will not be restored until the total annual charge has been paid.
3. The opening bill for flat rate service shall be established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth ($1/365$) of the number of days remaining in the calendar. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.
4. As authorized by the California Public Utilities Commission pursuant to Resolution W-4013, all bills are subject to a one-time surcharge of \$1.26. This charge offsets the Department of Health Services fee as billed to Agate Bay Water Company or the fiscal year 2004-2005. (C)
|
|
(C)
5. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

APPENDIX B
Agate Bay Water Company, Inc.

SCHEDULE NO. 2AL

LIMITED ANNUAL FLAT RATE SERVICE

APPLICABILITY

Applicable to flat rate service only to the Sun Club furnished on an annual basis.

TERRITORY

Agate Bay and vicinity, on the northwest shore of Lake Tahoe, Placer County.

RATES

Annual Flat Rate

Recreation Private Club use, five services plus one swimming pool,
payable in advance on or before January 1 of each year \$1,302.17(I)

SPECIAL CONDITIONS

1. For service covered by the above classification, if the utility so elects, a meter shall be installed and service provided under Schedule No. 1. Metered Service, effective as of the first day of the following calendar month. Where the flat rate charge for a period of time has been paid in advance, refund of the prorated difference such flat rate payment and the minimum meter charge for the same period shall be made on or about the same.
2. As authorized by the California Public Utilities Commission pursuant to Resolution W-4013, all bills are subject to a one-time surcharge of \$1.26. (C)
This charge offsets the Department of Health Services fee as billed to Agate Bay Water Company for the fiscal year 2004-2005. |
(C)
3. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

APPENDIX B
Agate Bay Water Company, Inc.

SCHEDULE NO. 4.

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to water service furnished for private fire systems and to private fire hydrants.

TERRITORY

Agate Bay and vicinity, on the northwest shore of Lake Tahoe, Placer County.

RATES

	<u>Per Service Connection</u> <u>Per Month</u>
For each inch of diameter of service connections	\$ 9.37 (I)

SPECIAL CONDITIONS

1. The facilities for service connection to a privately-owned fire protection system will be installed by the utility or under the utility's direction and the cost paid by the applicant. Such cost will not be subject to refund. The facilities paid for will be the sole property of the applicant.
2. The minimum diameter for the private service connection will be 4 inches. The maximum diameter will not be larger than the diameter of the water main to which the service is connected.
3. If a main of adequate size to serve a private fire protection system in addition to all other normal service does not exist adjacent to the premises to be served, then a new main from the nearest existing main of adequate capacity will be installed by the utility and the cost paid by the applicant. Such cost will not be subject to refund. The main where located in the public right-of-way or utility easement will be the sole property of the utility.

(continued)

APPENDIX B
Agate Bay Water Company, Inc.

SCHEDULE NO. 4
(continued)

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS (continued)

4. Service hereunder is for private fire protection systems to which no connections other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction and maintained to the satisfaction of the utility. The service connection facilities are subject to the control of the utility, with right to alter, repair, replace and the right to remove upon discontinuance of service. The customer is required to maintain, repair, and to provide for the required periodic inspection of system. Failure to comply with this provision may be grounds for the utility's discontinuance of the service to the premises without liability to the utility.
5. The service connection will include the installation of a detector check valve with meter or other similar device acceptable to the utility for protection against theft, leakage, or waste of water. If the utility and its duly authorized agents have the right of access to and within the premises for all purposes related to said facility, the requirement for a detector check valve and meter may be waived.
6. For water delivered for other than fire protection purposes, charges will be made therefore under Schedule No. 1, General Metered Service. Unauthorized use of water from the private fire service may be grounds for the utility's discontinuance of the service to the premises without liability to the utility.
7. The utility will supply only such water at such pressure as may be available at any time as a result of the normal operation of the utility system.
8. No structure except by written approval and authorization of the utility will be built over the facilities to serve private fire service and the customer will maintain and safeguard the area occupied by these facilities from traffic and other hazardous conditions. The customer will be responsible for any damage to the facilities.

(continued)

APPENDIX B
Agate Bay Water Company, Inc.

SCHEDULE NO. 4
(continued)

PRIVATE FIRE PROTECTION SERVICE

SPECIAL CONDITIONS (continued)

9. Subject to the approval of the utility, any change in the location or construction of the facilities to serve private fire service as may be requested by public authority or the customer will be made by the utility following payment to the utility for the entire cost of such change.
10. The customer shall indemnify the utility and save it harmless against any and all claims arising out of service under this schedule and shall further agree to make no claims against the utility for any loss or damage resulting from service under this schedule. Section 774 of the Public Utilities Code limits the liability of the utility resulting from a claim regarding adequacy of pressure or supply for fire protection service.
11. The customer shall be responsible for the periodic testing of any backflow prevention devices as required by public authority or the utility. Any repair or replacement of such devices or of any other facilities installed to provide private fire service shall be done at the customer's expense. Any refusal to comply with the above requirements may be grounds for the utility's discontinuing private fire service without liability to the utility.
12. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

APPENDIX B
Agate Bay Water Company, Inc.

SCHEDULE NO. SE

SERVICE ESTABLISHMENT CHARGE

APPLICABILITY

Applicable to all customers.

TERRITORY

Entire service territory.

RATES

	Outside Regular <u>Hours</u>	Regular <u>Hours</u>
Water turn off/on or Meter set	\$70.00	\$35.00
Change of account	\$70.00	\$35.00

SPECIAL CONDITIONS

1. The applicable service establishment charge provided for herein is in addition to the charges calculated in accordance with the applicable schedule and will be made each time an account is opened, including a turn-off/on meter set or reconnection of water service or a change of an account.
2. The outside regular hours rate is to be applied whenever the customer request that water service be turned off/on or reconnected outside regular business hours or within four hours after the request.
3. Utility shall take only those emergency actions and make only those minor repairs involving non-utility facilities, which would prevent serious hardship or property damage.
4. Utility may apply the service charge for problems with non-utility facilities whether or not actions and/or repairs involving such facilities are actually completed.

APPENDIX B
Agate Bay Water Company, Inc.

SCHEDULE NO. LC

LATE PAYMENT CHARGE

APPLICABILITY

Applicable to all water services.

TERRITORY

This schedule is applicable within the entire territory served by the utility.

RATES

Late Charge: A late charge of \$25.00 on unpaid balance subject to special conditions below. (I)

SPECIAL CONDITIONS

1. The balance is unpaid and subject to a late charge if the bill is past-due, or delinquent, as defined in Rule 11, Section B.1.a.
2. The late charge should be imposed only once on a delinquent bill, and imposed after the first installment becomes delinquent January 19th in snow conditions. Since the account would be shut-off before a subsequent installment or bill and then subject to the reconnection fee as authorized by Tariff Rule No. 11. (C)
|
|
|
(C)
3. All bills are subject to the reimbursement fee as set forth on Schedule No. UF.

APPENDIX B
Agate Bay Water Company, Inc.

RULE NO. 14.1

WATER CONSERVATION AND RATIONING PLAN

GENERAL INFORMATION

If water supplies are projected to be insufficient to meet normal customer demand, and are beyond the control of the utility, the utility may elect to implement voluntary conservation using the portion of this plan set forth in Section A of this Rule after notifying the Commission's Water Division of its intent. If, in the opinion of the utility, more stringent water measures are required, the utility shall request Commission authorization to implement the mandatory conservation and rationing measures set forth in Section B.

The Commission shall authorize mandatory conservation and rationing by approving Schedule No. 14.1, Mandatory Water Conservation and Rationing. When Schedule No. 14.1 has expired, or is not in effect, mandatory conservation and rationing measures will not be in force. Schedule No. 14.1 will set forth water use violation fines, charges for removal of flow restrictors, and the period during which mandatory conservation and rationing measures will be in effect.

When Schedule No. 14.1 is in effect and the utility determines that water supplies are again sufficient to meet normal demands, and mandatory conservation and rationing measures are no longer necessary, the utility shall seek Commission approval to rescind Schedule No. 14.1 to discontinue rationing.

In the event of a water supply shortage requiring a voluntary or mandatory program, the utility shall make available to its customers water conservation kits as required by Rule 20. The utility shall notify all customers of the availability of conservation kits.

(continued)

APPENDIX B
Agate Bay Water Company, Inc.

RULE NO. 14.1
(continued)

WATER CONSERVATION AND RATIONING PLAN

A. CONSERVATION - NON-ESSENTIAL OR UNAUTHORIZED WATER USE

No customer shall use utility-supplied water for non-essential or unauthorized uses as defined below:

1. Use of water through any connection when the utility has notified the customer in writing to repair a broken or defective plumbing, sprinkler, watering or irrigation system and the customer has failed to make such repairs within 5 days after receipt of such notice.
2. Use of water which results in flooding or run-off in gutters, waterways, patios, driveway, or streets.
3. Use of water for washing aircraft, cars, buses, boats, trailers or other vehicles without a positive shut-off nozzle on the outlet end of the hose. Exceptions include washing vehicles at commercial or fleet vehicle washing facilities operated at fixed locations where equipment using water is properly maintained to avoid wasteful use.
4. Use of water through a hose for washing buildings, structures, sidewalks, walkways, driveways, patios, parking lots, tennis courts, or other hard-surfaced areas in a manner which results in excessive run-off or waste.
5. Use of water for watering streets with trucks, except for initial wash-down for construction purposes (if street sweeping is not feasible), or to protect the health and safety of the public.
6. Use of water for construction purposes, such as consolidation of backfill, dust control, or other uses unless no other source of water or other method can be used.
7. Use of water for more than minimal landscaping in connection with any new construction.

(continued)

APPENDIX B
Agate Bay Water Company, Inc.

RULE NO. 14.1
(continued)

WATER CONSERVATION AND RATIONING PLAN

A. CONSERVATION - NON-ESSENTIAL OR UNAUTHORIZED WATER USE (CONT.)

8. Use of water for outside plants, lawn, landscape, and turf areas more often than every other day, with even numbered addresses watering on even numbered days of the month and odd numbered addresses watering on the odd numbered days of the month, except that this provision shall not apply to commercial nurseries, golf courses and other water-dependent industries.
9. Use of water for watering outside plants, lawn, landscape and turf areas during certain hours if and when specified in Schedule No. 14.1 when the schedule is in effect.
10. Use of water for watering outside plants and turf areas using a hand-held hose without a positive shut-off valve.
11. Use of water for decorative fountains or the filling or topping off of decorative lakes or ponds. Exceptions are made for those decorative fountains, lakes, or ponds which utilize recycled water.
12. Use of water for the filling or refilling of swimming pools.
13. Service of water by any restaurant except upon the request of the patron.

B. RATIONING OF WATER USAGE

In the event the conservation measures required by Section A are insufficient to control the water shortage, the utility shall, upon Commission approval, imposed mandatory conservation and rationing. Rationing shall be in accordance with the conditions set forth in Schedule No. 14.1 as filed at the time such rationing is approved by the Commission.

Before mandatory conservation and rationing is authorized by the Commission, the utility shall hold public meetings and takes all other applicable steps required by Sections 350 through 358 of the California Water Code.

(continued)

APPENDIX B
Agate Bay Water Company, Inc.

RULE NO. 14.1
(continued)

WATER CONSERVATION AND RATIONING PLAN

C. ENFORCEMENT OF MANDATORY CONSERVATION AND RATIONING

1. The water use restrictions of the conservation program, in Section A of this rule, become mandatory when the rationing program goes into effect. In the event a customer is observed to be using water for any nonessential or unauthorized use as defined in Section A of this rule, the utility may charge a water use violation fine in accordance with Schedule No. 14.1.
2. The utility may, after one verbal and one written warning, install a flow-restricting device on the service line of any customer observed by utility personnel to be using water for any non-essential or unauthorized use as defined in Section A above.
3. A flow restrictor shall not restrict water delivery by greater than 50% of normal flow and shall provide the premise with a minimum of 6 Ccf/month. The restricting device may be removed only by the utility, only after a three-day period has elapsed, and only upon payment of the appropriate removal charge as set forth in Schedule No. 14.1.
4. After the removal of the restricting device, if any non-essential or unauthorized use of water shall continue, the utility may install another flow-restricting device. This device shall remain in place until water supply conditions warrant its removal and until the appropriate charge for removal has been paid to the utility.
5. If, despite installation of such flow-restricting device pursuant to the provisions of the previous enforcement conditions, any such non-essential or unauthorized use of water shall continue, then the utility may discontinue water service to such customer. In such latter event, a charge as provided in Rule No. 11 shall be paid to the utility as a condition to restoration of service.
6. Any monies collected by the utility through water use violation fines shall not be accounted for as income, but shall be accumulated by the utility in a separate account for disposition as directed or authorized from time to time by the Commission.
7. The charge for removal of a flow-restricting device shall be in accordance with Schedule No. 14.1.

(continued)

APPENDIX B
Agate Bay Water Company, Inc.

RULE NO. 14.1
(continued)

WATER CONSERVATION AND RATIONING PLAN

D. APPEAL PROCEDURE

Any customer who seeks a variance from any of the provisions of this water conservation and rationing plan shall notify the utility in writing, explaining in detail the reason for such a variation. The utility shall respond to each such request.

Any customer not satisfied with the utility's response may file an appeal with the staff of the Commission. The customer and the utility will be notified of the disposition of such appeal by letter from the Executive Director of the Commission.

If the customer disagrees with such disposition, the customer shall have the right to file a formal complaint with the Commission. Except as set forth in this Section, no person shall have any right or claim in law or in equity, against the utility because of, or as a result of, any matter or thing done or threatened to be done pursuant to the provisions of this water conservation and rationing plan.

E. PUBLICITY

In the event the utility finds it necessary to implement this plan, it shall notify customers and hold public hearings concerning the water supply situation, in accordance with Chapter 3, Water Shortage Emergencies, Sections 350 to 358, of the California Water Code. The utility shall also provide each customer with a copy of this plan by means of billing inserts or special mailings; notification shall take place prior to imposing any fines associated with this plan. In addition, the utility shall provide customers with periodic updates regarding its water supply status and the results of customers' conservation efforts. Updates may be by bill insert, special mailing, poster, flyer, newspaper, television or radio spot/advertisement, community bulletin board, or other appropriate methods.

APPENDIX B
Agate Bay Water Company, Inc.

SCHEDULE NO. 14.1

MANDATORY WATER CONSERVATION AND RATIONING

APPLICABILITY

This schedule applies to all water customers served under all tariff rates schedules authorized by the Commission. It is only effective in times of rationing, as required by Rule No. 14.1, and only for the period noted in the Special Conditions section below.

TERRITORY

This schedule is applicable within the entire territory served by the utility.

WATER USE VIOLATION FINE

When this schedule is in effect, the water use restrictions of the conservation program, in Section A of Rule 14.1, become mandatory. If a customer is seen violating the water usage restrictions, as outlined in Rule No. 14.1 and the Special Conditions below, the customer will be subject to the following fine structure:

First offense -	written warning
Second offense -	\$ 25
Third offense -	\$ 50

Each additional offense - \$ 25 more than the previous fine imposed.

Offenses for separate water use restrictions will each start at the warning stage.

The water use violation fine is in addition to the regular rate schedule charges.

(continued)

APPENDIX B
Agate Bay Water Company, Inc.

SCHEDULE NO. 14.1
(continued)

MANDATORY WATER CONSERVATION AND RATIONING

FLOW RESTRICTOR REMOVAL CHARGE

The charge for removal of a flow-restricting device shall be:

<u>Connection Size</u>	<u>Removal Charges</u>
5/8" to 1"	\$125.00
1-1/2" to 2"	\$250.00
3" and larger	Actual cost

SPECIAL CONDITIONS

1. This tariff schedule shall remain in effect for period of six (6) months from the effective date set forth below.
2. There shall be no use of utility-supplied water for outside plants, lawn, landscape, and turf areas between the hours of 8:00 a.m. to 7:00 p.m., regardless of address or day of the month.
3. Water use violation fines may be applied to violations of Section A of Rule No. 14.1, which prohibits non-essential and unauthorized uses of water.
4. Water use violation fines must be separately identified on each bill.
5. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

APPENDIX C
 Agate Bay Water Company, Inc.

COMPARISON OF RATES
 TEST YEAR 2005

A comparison of the existing and the recommended rates are as follows:

<u>Quantity Rate:</u>	<u>Present Rates</u>	<u>New Rates</u>	<u>Recommended Increase</u>
Per 100 Cubic Feet (Ccf)	\$1.15	\$1.42	23.10%
<u>Service Charge per meter per year:</u>			
For 5/8 x 3/4 inch.....	\$15.05	\$18.53	23.10%
For 3/4 inch.....	\$16.40	\$20.19	23.10%
For 1 inch.....	\$22.16	\$27.28	23.10%
For 1 1/2 inch.....	\$29.78	\$36.66	23.10%
For 2 inch.....	\$39.75	\$48.93	23.10%
<u>Annual Flat Rate Service per service connection:</u>			
For 0-3/4 inch.....	\$373.45	\$458.78	22.85%
For 1 inch.....	\$383.39	\$484.43	26.36%
For 1 1/4 inch.....	\$393.33	\$517.76	31.63%
For 1 1/2 inch.....	\$403.27	\$544.95	35.13%
For 2 inch.....	\$413.21	\$602.03	45.70%
<u>Additional Single-Family Residential Unite:</u>	\$261.42	\$321.14	22.85%
<u>Limited Annual Flat Rate Service</u>	\$1057.78	\$1,302.17	23.10%
<u>Private Fire Protection Service</u>	\$7.61	\$9.37	23.10%

A comparison of annual bill for a 3/4-inch pipe size under the annual flat service:

<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
\$373.45	\$458.78	\$85.33	22.85%

APPENDIX D
Agate Bay Water Company, Inc.

ADOPTED QUANTITIES
TEST YEAR 2005

1.	Rate Base	
	Utility Plant in Service, End of Year	\$854,621
	Depreciation Reserve	<u>\$302,015</u>
	Net Plant	\$552,606
	Materials	<u>\$4,915</u>
	Rate Base	\$557,521
2.	Ad Valorem Taxes:	
	Tax Rate	1.08964%
	Property Tax (based on tax bills)	\$6,543
	Additional Tax in test year	\$ 563
	Total Property Tax:	\$7,106
3.	Franchise Tax:	\$0
4.	Service Connections:	
	<u>Pipe Size</u>	<u>Number of Connections</u>
	¾"	567
	1"	5
	1 ¼"	2
	1 ½"	1
	2"	4
	Add Unit	16
	Limited Flat	1
	Fire Protection 1 ¼"	3 (45 inches of service per year)
	Fire Protection 1 ½"	2 (36 inches of service per year)
	Fire Protection 2"	2 (<u>48 inches of service per year</u>)
		(129 inches of service per year)
	Total	603
5.	Purchased Power (Approximated):	\$5,433

(continued)

APPENDIX D
Agate Bay Water Company, Inc.

ADOPTED QUANTITIES
TEST YEAR 2005
(continued)

6.	Payroll:	
	Labor	\$18,139
	Office	\$17,084
	Management	<u>\$22,779</u>
		\$58,002
7.	Adopted Taxes:	
	Income Tax @ 22.14% of Net Income (\$69,133)	\$15,306

APPENDIX E
 Agate Bay Water Company, Inc.

REVENUES
 TEST YEAR 2005

Pipe Size	Annual Flat Service	Number of Customers	Revenue
3/4 inch	\$458.78	567	\$260,128
1 inch	\$484.43	5	\$2,422
1 ¼ inch	\$517.76	2	\$1,036
1 ½ inch	\$544.95	1	\$545
2 inch	\$602.03	4	\$2,408
Additional unit connection	\$321.14	16	\$5,138
Limited Flat	\$1,302.17	1	\$1,302
		7	
Fire Protection (\$/inch of service)	\$9.37	(129" of service)	\$1,208
Total Flat Service Revenue			\$274,187.00
Quantity Charge:	Per Ccf	Water Sold	Quantity Revenues
-currently, no customers on this tariff	Not applicable	Not applicable	\$0
Total Sales Revenues	\$274,187	+ \$0	= \$274,187

APPENDIX F
Agate Bay Water Company, Inc.

OPERATING RATIO CALCULATIONS
TEST YEAR 2005

$RR = rom[O\&M + D + Taxes(no\ income\ tax)] + O\&M + D + T$
where

RR = Revenue Requirement

rom = rate of margin = 24%

O&M = Operating and maintenance expense = \$154,334

D = Depreciation expense = \$22,960

T = Income and other taxes

= Income Tax (\$5,807 + \$9,499) + Other Tax (\$7,106 + \$5,348)

$RR = 24\% * [\$154,334 + \$22,960 + \$7,106 + \$5,348] + \$154,334 + \$22,960 + (\$5,807 + \$9,499 + \$7,106 + \$5,348)$
 $= 0.24 * \$189,748 + \$154,334 + \$22,960 + \$27,760$
 $= \$45,540 + \$154,334 + \$22,960 + \$27,760$
 $= \$250,594 < \$274,187 \text{ (Revenue Requirement using 12.4\% rate of return)}$

APPENDIX G
Agate Bay Water Company, Inc.

CONSUMER PRICE INDICES

Year	2001	2002	2003	2004	2001-2004
Consumer Price Index	1.6%	2.4%	1.9%	3.3%	9.51%

APPENDIX H
Agate Bay Water Company, Inc.

PUBLIC MEETING NOTES

The 7 p.m. public meeting was held at 8318 North Lake Blvd, Kings Beach, which is on the north shore of Lake Tahoe. Besides CPUC staff Michael Yeo and ABWC representative, Steve Glazer, Duncan Davis, there were 10 other attendees who signed in the attendance sheet. Michael Yeo began the meeting and explained its purpose. At Michael Yeo's request, Steve Glazer distributed copies of the financial proposal to the audience, and proceeded to explain why the increase was necessary, the various expense items and the estimated costs associated with each.

There were many queries raised by the attendees; most were related to the high, proposed rate increase. The issues raised and explanations offered are as follows:

- On the cost of office space rental; this expense pertains only to the Carmichael office. There has never been a claim for the use of any other office space.
- On the issue on employee pensions and benefits, there were two employees that qualified in the last GRC. There are now three employees, with the addition of the owners' son, Duncan C. Davis. At the meeting, ABWC incorrectly responded that the wife of Duncan C. Davis was part of the company's pension program. A review of the documents the next day shows that the Health premiums of \$11,192 and the IRA of \$9,000 do not include Mrs. Duncan C. Davis.
- A ratepayer complained that the additional-unit meter rate should not be increased by 59%. The CPUC staff responded that he would look into his concern during the GRC review. (There are 16 additional-unit connections that are known to Agate Bay.)
- There were criticisms that Sun Club, a recreational facility, was not paying its fair share of the rates. - The Limited flat rate tariff (Schedule No. 2AL) was first established in 1964 when the club was built; the tariff pertains to the combined services of two ¾" and one unknown pipe-size. Unknown to those ratepayers in attendance, Sun Club has since acquired a separate 1" service for the tennis court and also a separate ¾" service for the pier. So, Sun Club appears to be paying its fair share of the rates.
- One ratepayer wanted to know why he was charged the 1" connection rate. A field investigation the next day showed that she indeed had an 1" pipe.
- The same ratepayer also complained about not having a fire hydrant on her street, which is a private street. A North Tahoe Fire Protection District Marshall, who was present at the meeting, responded there were no tanker trucks in Carnelian Bay, and that the only way to respond to a fire in her street would be to run the fire hose from the closest hydrant on the public street.
- Another ratepayer complained about low water pressure. A field test measurement the next day showed that the water pressure was 59 psi, which is above the 25 psi required minimum pressure mentioned in the Tariff.

(continued)

APPENDIX H
Agate Bay Water Company, Inc.

JUNE 14, 2005 PUBLIC MEETING NOTES
(continued)

- As for water conservation, ABWC stated that effort was currently voluntary, and mandatory conservation might be in force later. 10% voluntary conservation is Agate Bay's target. In the Consumers Confidence Report, an annual report that DHS requires ABWC to prepare for its customers, ABWC reminds customers to conserve water. Both CPUC staff and ABWC brought up the proposed Water Conservation and Rationing Plan, but there was no protest on the proposed tariff rule. ABWC mentioned that a public hearing is required before it is necessary to implement the Conservation Plan.
Water conservation statements are reminded in each billing statement which is twice a year. The Public Meeting attendees were more concerned that, presently under the flat rate tariff, there is no incentive for big users to conserve water. The discussion led to the mandatory installation of meters for all households to ensure that the big users pay their fair share of the amount of water used. The cost of installing meters was anticipated to be high. While all newly-constructed homes are presently required to have meter setters to allow for future installation of meters, many existing homes do not have them.
- Some audience members complained that part-time dwellers were subsidizing full-time dwellers on the water rates. Even though new homes are required to have meter setter installed to allow for future installation of meters, all new homes, so far, are being charged flat rates. Most homes still do not have meter setters.
- ABWC provided clarification on the relationship between pipe sizes and rates, and explained why larger pipe sizes have higher rates.
- A resident commented as to why Agate Bay did not have any reserve funds, and why pipe sections were failing. The ratepayer was commenting on ABWC's remarks about replacing 200' to 300' length of pipe per year. The CPUC staff explained that the Commission does not allow for reserve funds but will allow funds to be used for projected maintenance expenses. ABWC explained that pipe materials run into their fatigue and useful life, and need to be repaired and/or replaced.
- An attendee commented about having the NTPUD (North Tahoe Protection Utility District) taking over the water operation. The Commission staff responded that the residents would need to petition for such a change. The Commission staff added that, in other communities, petitions had been made before their elected officials to have other entities taking over their utility services. For example, in San Francisco, there was a ballot measure to have City and County of San Francisco take over the power utility from PG&E. The Commission staff also mentioned that the City of Davis was also exploring the option of having their power provided by SMUD instead of PG&E.

Not a single attendee complaint about the water quality.

The meeting ended at 9 p.m.

(continued)

APPENDIX H
Agate Bay Water Company, Inc.

JUNE 14, 2005 PUBLIC MEETING NOTES
(continued)

The following is a list of the ten persons, besides CPUC and ABWC staff, who attended the public meeting. Of the ten, only one also wrote in his protest letter.

TABLE H
LIST OF PUBLIC MEETING ATTENDEES

#	Name	Written Protest	@Public Meeting
1	CAMOZZI, Lou P.O. Box 468 Carnelian Bay	5/30/05 US Mail	yes
2	ASSANTE, Joseph & Barbara 5775 Victoria, City?		yes
3	BOYD, Frederick & Margaret 5767 Nik Road City?		yes
4	FORMOSA, John 5895 Victoria ?		yes
5	HASSENPLUG, John 641 Chad City?		yes
6	HOOK, Steve ?		yes
7	MERCHANT, Jennifer 5621 Dodowah Road City?		yes
8	OSWALD, Donald L. 5880 Victoria City?		yes

APPENDIX I
Agate Bay Water Company, Inc.

COMPLAINTS

The following is a list of 14 persons who wrote in their protest letters. Of the 14, only one also attended the public meeting.

TABLE I
LIST OF WRITE-IN PROTESTS

#	Name	Written Protest	@Public Meeting
1	BURMAN, Bruce 6052 Dodowah, Agate Bay	6/26/05 e-mail	no
2	CAMOZZI, Lou P.O. Box 468 Carnelian Bay	5/30/05 US Mail	yes
3	CARR, Lamont 5806 Ophir St., Carnelian Bay	6/13/05 e-mail & US Mail	no
4	CLARK, Ed & Karen 5581 North Lake Blvd. PO Box 98 Carnelian Bay	6/1/05 US Mail	no
5	CLINCH, Watt 5566 Nile Road City? wacli28@juno.com	6/12/05 e-mail	no
6	DRADI, Lou & Gloria	6/6/05 US Mail	no
7	HEIN, John 5833 Ophir Rd. Agate Bay, CA	6/15/05 e-mail	no
8	KURZ, Richard 1910 17 th Av., San Francisco, CA	6/1/05 US Mail	no
9	LANDAUER, Richard 6021 Korlebru City?	6/2/05 e-mail to Steve Glazer	no
10	MENSING, Mr. & Mrs. David 2056 Asilomar Dr. Oakland, CA	6/13/05 e-mail	no

(continued)

APPENDIX I
Agate Bay Water Company, Inc.

COMPLAINTS
(continued)

#	Name	Written Protest	@Public Meeting
11	ROBERTSON, Jim 5625 Sahara Drive, Carnelian Bay	6/8/05 e-mail	No
12	ROGHERS, Helga 5655 North Lake Blvd., Carnelian Bay, CA	6/13/05 fax	no
13	STEPHENS, Douglas & Kathleen, 5887 Sudan Road, Carnelian Bay. Also, Davis, CA	6/7/05 US Mail	no
14	STERRETT, Kim 5630 Dodowah Rd Carnelian Bay Also, Auburn, CA	6/15/05 e-mail & US Mail	no